

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;  
Mark Acton, Vice Chairman;  
Nanci E. Langley; and  
Robert G. Taub

Notice of Market-Dominant  
Price Adjustment

Docket No. R2012-3

NOTICE AND ORDER  
ON PLANNED RATE ADJUSTMENTS AND CLASSIFICATION CHANGES  
FOR MARKET DOMINANT POSTAL PRODUCTS

(Issued October 21, 2011)

I. OVERVIEW

A. Index-based Price Changes for Market Dominant Classes of Mail

On October 18, 2011, the Postal Service filed an Adjustment Notice pursuant to 39 U.S.C. 3622 and 39 CFR part 3010.<sup>1</sup> The Adjustment Notice presents the Postal Service's plans to adjust prices for market dominant products by amounts which, on average, are at or below the statutory price cap of 2.133 percent for each class of mail. Adjustment Notice at 3. The planned adjustments affect both domestic and international market dominant products.

---

<sup>1</sup> United States Postal Service Notice of Market-Dominant Price Adjustment, October 18, 2011. (Adjustment Notice). This is a Type 1-A adjustment under Commission rules.

The Postal Service notes that the most recently available data from the Bureau of Labor Statistics provides the Postal Service with inflation-based price adjustment authority of 2.133 percent.<sup>2</sup> *Id.* at 3. The following table presents class-specific averages.

**Table 1**  
**2012 Price Change Percentage by Class of Mail**

| <b>Market Dominant Class</b> | <b>Planned Percentage Change</b> |
|------------------------------|----------------------------------|
| First-Class Mail             | 2.133                            |
| Standard Mail                | 2.124                            |
| Periodicals                  | 2.133                            |
| Package Services             | 2.133                            |
| Special Services             | -0.663                           |

*Id.* at 5.

The Adjustment Notice states that the overall average for Special Services is a result of large price reductions for Delivery Confirmation and Confirm services. *Id.* at 26. In addition, price adjustments for products within other classes may vary from the average, sometimes substantially. These variances typically reflect several considerations consistent with the Postal Service's pricing flexibility under the Postal Accountability and Enhancement Act (PAEA) of 2006.

*Classification changes.* The Adjustment Notice identifies a wide range of classification changes. Some involve reformatting and minor editorial revisions. Others concern product transfers approved in prior Commission proceedings. *Id.* at 50-52.

*Effective date.* The Postal Service plans to implement its planned price and classification changes for Mailing Services on January 22, 2012 at 12:01 a.m. *Id.* at 1.

---

<sup>2</sup> Specifically, the U.S. Department of Labor's Consumer Price Index for All Urban Consumers, U.S. All Items (the "CUUROOOOSA0) series.

It notes this is a departure from past practice, but says it is consistent with the implementation date for planned rate changes for its competitive Shipping Services. *Id.* at 9.

B. Context and Format of Adjustment Notice

The Adjustment Notice includes a brief introductory section, three enumerated parts, and three attachments. The Postal Service also submitted separate workpapers supporting the planned changes. The introductory section includes the Postal Service's certification, in accordance with rule 3010.14(a)(3), that it will provide widespread notice of the planned adjustments prior to the planned implementation date. *Id.* at 1. It identifies Scott J. Davis as the Postal Service official who will respond to queries from the Commission. *Id.* at 2.

Part I presents a discussion of compliance with the price cap. *Id.* at 2-6. Part II discusses prices in detail, including workshare discounts. It also explains the consistency of the prices with the objectives and factors of 39 U.S.C. 3622 and the preferential pricing requirements of 39 U.S.C. 3626. *Id.* at 6-50. Part III describes related Mail Classification Schedule (MCS) changes. *Id.* at 50-52.

Attachment A presents MCS changes in legislative format and includes schedules of the new prices. Attachment B presents workshare discounts and related information. Attachment C contains the Postal Service's price cap calculation. This includes, in conformance with rule 3010.22(b), an adjustment to the moving average because less than 12 months have passed since the most recent price change (filed on January 13, 2011).

The workpapers are designated as follows:

First Class Mail: USPS-R2012-3/1

First Class Mail International: USPS-R2012-3/NP1

Standard Mail: USPS-R2012-3/2

Periodicals: USPS-R2012-3/3

Package Services: USPS-R2012-3/4

Special Services: USPS-R2012-3/5

Each set of workpapers includes a preface which provides an overview, a discussion of any necessary adjustments to the billing determinants for the four quarters ending Q3 FY 2011, and an explanation of the revenue calculations.

*Basis for adjustments.* The Adjustment Notice was filed under the PAEA's revised approach to postal pricing. In brief, this approach generally limits increases at the class level to an annual price cap, although the Postal Service may elect, but is not required, to draw on unused pricing authority generated as a result of previous adjustments. In this case, the Postal Service elects not to draw on that authority. It is, instead, relying only on the price cap authority. However, the Postal Service's approach to Standard Mail and Special Services in this case adds to the unused pricing authority from previous cases. The following table identifies the total unused pricing authority that will be available following the changes in this case.

**Table 2**  
**Postal Service's Calculation of**  
**Total Unused Pricing Authority Available**  
**Following Docket No. R2012-3**

| <b>Class</b>     | <b>Total Unused<br/>Pricing Authority<br/>(%)</b> |
|------------------|---------------------------------------------------|
| First-Class Mail | -0.530                                            |
| Standard Mail    | -0.463                                            |
| Periodicals      | -0.562                                            |
| Package Services | -0.551                                            |
| Special Services | 2.324                                             |

*Id.* at 6 (adapted from the Table 4 in the Adjustment Notice).

## II. THE COMMISSION'S ROLE

This marks the fourth time the Commission will review index-based changes for market dominant classes under authority established in the PAEA. The filing of the Adjustment Notice triggers a PAEA requirement that the Commission establish a formal docket to review, within 45 days, the consistency of the Postal Service's planned adjustments with the price cap and related requirements. The Commission must also provide public notice that the Postal Service has filed a price adjustment case; publish the notice in the *Federal Register*; appoint an officer of the Commission (Public Representative) to represent the interests of the general public, and provide a 20-day public comment period.

Issuance of this Notice and Order (Order) allows the Commission to fulfill these obligations. This Order provides an overview of the Postal Service's plans. Interested persons may obtain more detail by reference to the Adjustment Notice, the related workpapers, and review of subsequent errata, if any.

## III. SUMMARY BY CLASS OF MAIL

### A. First-Class Mail

The following table identifies the Postal Service's planned percentage price changes for its First-Class Mail products.

**Table 3**  
**First-Class Mail Price Changes**

| <b>First-Class Mail Product</b> | <b>Percent Change (%)</b> |
|---------------------------------|---------------------------|
| Single-Piece Letters and Cards  | 2.468                     |
| Presort Letters and Cards       | 1.580                     |
| Flats                           | 1.605                     |
| Parcels                         | 10.882                    |
| International*                  | 4.679                     |
| Overall                         | 2.133                     |

*Id.* at 12.

*The first-ounce First-Class Mail price.* The price of a stamp for the first-ounce of single-piece letter mail, including the Forever stamp, increases by one cent under the Postal Service's plan, going from 44 cents to 45 cents. *Id.*

*Single-Piece Letters and Cards.* The overall increase of 2.468 percent for Single-Piece Letters and Cards includes a 3 cent increase in the price for Single-Piece Cards. *Id.*

*Presort Letters and Cards.* The Postal Service acknowledges that the overall increase for this product is below the overall average for First-Class Mail, and explains its rationale for this outcome. *Id.* at 13. It presents a comparison of First-Class Mail First-Ounce Prices. *Id.* at 14, Table 6.

In an effort to retain certain types of volume, the Postal Service proposes to expand the lightest weight step (currently, one ounce) for First-Class Mail Automation and Nonautomation Presort Letters by increasing the maximum qualifying weight of an automation letter from 1 ounce to 2 ounces. This "free ounce" will be available only to pieces weighing 2 ounces or less. A three-ounce piece will pay for additional ounces

the traditional way. *Id.* at 15. The Postal Service presents the percentage price change First-Class Automation Letters/2-ounce Pieces. *Id.* at 16, Table 7.

*Flats.* The Postal Service notes, among other things, that prices for Nonautomation Presort and Mixed ADC Automation flats will increase by less than 1 percent. *Id.* ADC, 3-digit, and 5-digit automation flats increase at a higher percentage than the overall increase in Flats, as well as the overall increase in First-Class Mail. *Id.*

*Parcels (including Keys and Identification Devices).* The Postal Service acknowledges that the 10.8 percent increase for parcels is higher than the overall increase for this class, but asserts that it expects this to improve the cost coverage for the parcels that remain in the market dominant stream. *Id.* at 17. It notes that as a result of Docket No. MC2011-22, Commercial Base and Commercial Plus parcels are now classified as competitive, and that its January 2012 prices for these parcels will be provided in a notice filed later this fall. *Id.* at 16. The Retail portion of single-piece parcels remains in the market dominant First-Class Mail class. *Id.* See also *id.* at 12-13.

*International.* The Postal Service increases Outbound Single-Piece First Class Mail International (FCMI) by 4.9 percent overall. *Id.* at 17. The rationale for an increase for FCMI Letters “significantly above” the First-Class Mail average is to address cost coverage problems. *Id.* For FCMI Letters, Flats, and Parcels, the overall increases are 6.6 percent, 3.7 percent, and 4.0 percent. *Id.*

## B. Standard Mail

The following table presents the Postal Service’s planned changes for Standard Mail products.

**Table 4**  
**Standard Mail Price Changes**

| <b>Standard Mail Product</b>              | <b>Percent Change (%)</b> |
|-------------------------------------------|---------------------------|
| Letters                                   | 1.867                     |
| Flats                                     | 2.209                     |
| Parcels                                   | 2.864                     |
| High Density/Saturation Letters           | 2.298                     |
| High Density/Saturation Flats and Parcels | 2.878                     |
| Carrier Route Letters, Flats and Parcels  | 2.425                     |
| Overall                                   | 2.124                     |

*Id.* at 18.

The Postal Service attributes its lower-than-average increase for Standard Letters to above-cap increases for Flats and Parcels; a price increase for Detached Address Labels (DALs); and a price reduction for nonprofit letters that was needed to achieve the required nonprofit to commercial revenue per piece ratio. *Id.*

The Standard Mail price adjustment also reflects classification changes to the Postal Service's NFMs/Parcels product. This involves restructuring parcels offerings to address the different needs of fulfillment parcels and marketing parcels. *Id.* at 19. The restructuring, in brief, involves a transfer of commercial machinable and irregular parcels to the competitive product list, in accordance with the Commission's conditional approval in Docket No. MC2010-36. *Id.* at 19-20. It also involves eliminating the NFMs category and replacing it with a new Marketing Parcels category. *Id.* at 21. Additional details about these classification changes are provided in the Postal Service's filing. See *id.* at 21-22.



*DALs used with Flats.* The Postal Service is increasing the surcharge for DALs used with Flats from 1.7 cents per piece to 5.0 cents and dividing DALs into two categories. *Id.* at 22. One category is for labels with advertising; the other is for labels with no advertising. *Id.* at 22-23.

*DALs used with Parcels.* The Postal Service is eliminating the surcharge for DALs used with parcels based on its belief that DALs eliminate the need to keep bulky parcels sequenced before and during the delivery operation. *Id.* at 23.

### C. Periodicals

The following table presents the Postal Service's planned changes for the Periodicals class.

**Table 5**  
**Periodicals Price Changes**

| <b>Periodicals Product</b> | <b>Percent Change (%)</b> |
|----------------------------|---------------------------|
| Outside County             | 2.136                     |
| Within County              | 2.054                     |
| Overall                    | 2.133                     |

*Id.* at 23.

The Postal Service asserts, among other things, that this price change "refines price relationships to encourage efficiency and containerization, while limiting the price increases for individual publications." *Id.* It is adding one rate cell for Origin Mixed Area Distribution Center (ADC) pallets to allow mailers who enter mail at origin to be more efficient by using origin-entered mixed ADC pallets. *Id.* at 24. It says this will encourage palletization rather than sacking where feasible. Workpaper USPS-R2012-3/3 provides more details. *Id.*

#### D. Package Services

The following table presents the Postal Service's planned percentage changes for the Package Services class.

**Table 6**  
**Package Services Price Changes**

| <b>Package Services Product</b> | <b>Percentage Change</b> |
|---------------------------------|--------------------------|
| Single-Piece Parcel Post        | 2.472                    |
| Bound Printed Matter Flats      | 0.504                    |
| Bound Printed Matter Parcels    | 1.886                    |
| Media Mail and Library Mail     | 2.581                    |
| Inbound Surface Parcel Post     | 1.958*                   |
| Overall                         | 2.133                    |

\* Prices for Inbound Surface Parcel Post (at UPU rates) are determined by the Universal Postal Union and are not under the Postal Service's control. These prices are adjusted by the Postal Operations Council. *Id.* at 24 n.11.

*Id.*

The Postal Service identifies its overall goal in Package Services as improving product profitability. *Id.* The Postal Service characterizes the adjustment for Single-Piece Parcel Post as slightly larger than average for the class, but not as high as for Media/Library Mail, reflecting the fact that this product does not cover cost, but has a higher cost coverage than Media/Library Mail. *Id.* The Postal Service is eliminating the 3-cent barcode discount for Media Mail, Library Mail, and Bound Printed Matter. It asserts that this discount will become obsolete when all mail will be required to have a barcode. Also, the Postal Service says this discount is unnecessary with the mandatory requirement of the Intelligent Mail Package barcode for commercial customers in 2013.

*Id.*

*Package Intercept.* The Postal Service is adding Package Intercept service as an optional feature for First-Class Mail, Standard Mail, and Package Services. *Id.* at 26. It anticipates proposing this service as a new competitive product in the market-dominant section of the MCS, but includes the related changes in the market-dominant section of the MCS filed in this docket for administrative ease. *Id.*

*Bound Printed Matter.* For BPM Flats, the price increase is lower than products with lower cost coverage, given the Postal Service's assessment that this product "already has healthy cost coverage" and the need to offset higher price increases for lower-performing products. *Id.* at 25. The Postal Service says this continues the shape-based deaveraging that began in Docket No. R2011-1 and reflects the lower costs of processing and delivery flats relative to parcels. *Id.*

#### E. Special Services

The Adjustment Notice does not present a table of percentage price increases for the products in this class. The Postal Service asserts that it designed fee increases to be close to the cap percentage for most of them, while maintaining consistency with historical rounding constraints that simplify transactions for customers.<sup>3</sup> *Id.* The Postal Service states that the overall increase for Special Services is -0.663 percent due to its plan to include Delivery Confirmation as an integral part of several parcel offerings at no additional fee. *Id.* The Special Services workpapers provide information on price changes and resulting percentage changes. See USPS-R2012-3/5.

The Postal Service presents a detailed discussion of planned changes to individual products within Special Services. For more information refer to the Adjustment Notice and workpaper USPS-R2012-3/5. *Id.* at 26-29.

---

<sup>3</sup> The Postal Service identifies these products as: Ancillary Services; International Ancillary Services; Address Management Services; Caller Service; Change-of-Address Credit Card Authentication; Confirm; International Reply Coupon Service; International Business Reply Mail Service; Money Orders; Post Office Box Service; Stamp Fulfillment Services; and Customized Postage. *Id.* at 26.

#### IV. PREFERRED MAIL AND WORKSHARING DISCOUNTS

*Preferred mail.* The Adjustment Notice includes the Postal Service's explanation that it implemented section 3626 pricing requirements in the same manner as in the Docket No. R2011-2 price change, and notes the Commission concluded the Postal Service's interpretation of section 3626 is appropriate. *Id.* at 29. The Postal Service identifies each of the preferred products or components (Within County Periodicals, Nonprofit and Classroom Periodicals, Science of Agriculture Periodicals advertising pounds, Nonprofit Standard Mail, and Library Mail) and describes how the planned adjustments comport with applicable statutory factors. *Id.* at 29-31.

*Consistency with 39 U.S.C. 3627 and 3629.* The Adjustment Notice observes that neither of these sections are implicated by the price change, as the Postal Service does not seek to alter free rates (section 3627) or change the eligibility requirements for nonprofit rates.

*Workshare discounts.* The Adjustment Notice includes the Postal Service's justification and explanation, in accordance with rules 3010.14(b)(5) and (6), for workshare discounts that exceed 100 percent of avoided costs or that are substantially below 100 percent. It is presented by class and, where appropriate, by individual product. *Id.* at 31-50.

#### V. MCS SCHEDULE

The Adjustment Notice, in conformance with rule 3010.14(b)(9), identifies numerous changes to the MCS. *See id.* at 50-52.

#### VI. ADMINISTRATIVE ACTIONS

The Commission hereby establishes a formal docket, captioned Docket No. R2012-3, Notice of Price Adjustment, to conduct the review of the Postal Service's planned price adjustments mandated in 39 U.S.C. 3622. It already has posted the Adjustment Notice on the Commission's website (<http://www.prc.gov>), and has made the Adjustment Notice available for copying and inspection during the agency's regular business hours of 8 a.m. to 4:30 p.m. weekdays, except Federal holidays. Additional

Postal Service and Commission filings in this docket, as well as written comments or filings by others, will also be posted on the Commission's website and made available for inspection and copying at the Commission during the business hours referred to above.

*Public comment period.* The Commission's rules provide a period of 20 days from the date of the Postal Service's filing for public comment. 39 CFR 3010.13(a)(5). Comments by interested persons are due no later than November 7, 2011

Commission rule 3010.13(b) further provides that public comments are to focus primarily on whether the planned price adjustments comply with the following mandatory requirements under the PAEA:

- (1) whether the planned rate adjustments measured using the formula established in section 3010.23(b) are at or below the annual limitation established in section 3010.11; and
- (2) whether the planned rate adjustments measured using the formula established in section 3010.23(b) are at or below the limitations established in section 3010.28.

*Participation and designated filing method.* Participation in some Commission proceedings requires interested persons to file notices of intervention prior to, or in conjunction with, submitting other documents. This approach does not apply in this type of case. Instead, interested persons are to submit comments electronically via the Commission's Filing Online system, unless a waiver is obtained. Instructions for obtaining an account to file documents online may be found on the Commission's website (<http://www.prc.gov>), or by contacting the Commission's Docket Section staff at 202-789-6846.

Persons without access to the Internet or otherwise unable to file documents electronically may request a waiver of the electronic filing requirement by filing a motion for waiver with the Commission. The motion may be filed along with any comments the person may wish to submit in this docket. Persons requesting a waiver may file hardcopy documents with the Commission either by mailing or by hand delivery to the Office of the Secretary, Postal Regulatory Commission, 901 New York Avenue, NW, Suite 200, Washington, DC 20268-0001 during regular business hours by the date

specified for such filing. Any person needing assistance in requesting a waiver may contact the Docket Section at 202-789-6846. Hardcopy documents will be scanned and posted on the Commission's website.

*Official publication.* The Commission directs the Secretary to arrange for prompt publication of this Order in the *Federal Register*.

*Appointment of Public Representative.* In conformance with 39 U.S.C. 505, the Commission appoints Cassandra L. Hicks to represent the interests of the general public in this proceeding.

## XII. ORDERING PARAGRAPHS

*It is ordered:*

1. The Commission establishes Docket No. R2012-3 to consider planned price adjustments in rates and fees for market dominant postal products and services identified in the Postal Service's October 18, 2011 Adjustment Notice.
2. Comments by interested persons on the planned price adjustments are due no later than November 7, 2011.
3. Pursuant to 39 U.S.C. 505, the Commission appoints Cassandra L. Hicks to represent the interests of the general public in this proceeding.
4. The Commission directs the Secretary of the Commission to arrange for prompt publication of this notice in the *Federal Register*.

By the Commission.

Shoshana M. Grove  
Secretary